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DEPT OF ENERGY FOR FE - SWIFT AND OS - WILLIAMSON
USTDA FOR DAN STEIN

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TAGS: [EPET](#) [ENRG](#) [PREL](#) [EWWT](#) [EINV](#) [AJ](#) [KZ](#)
SUBJECT: BAKU ENERGY COMMUNITY CAUTIOUSLY OPTIMISTIC ON
AZERBAIJAN-KAZAKHSTAN IGA

Classified By: Charge d, Affaires Jason P. Hyland, reasons 1.4 (b), (d)
and (e).

¶1. (C) Views in Baku of the Kazakhstan-Azerbaijan Inter-Governmental Agreement (IGA) on trans-Caspian oil recently signed in Almaty are positive if unenthusiastic. John Dabbar of ConocoPhillips considers the IGA to be "not that bad," as it includes "nothing hugely detrimental" to the project. A lot of issues have been deferred to the follow-on Host Government Agreements (HGAs) to be negotiated independently with Azerbaijan and Kazakhstan. The longstanding Marine Transporter issue was settled on terms that the investors can "live with" - the IGA merely requires project vessels to be either Azerbaijani-flagged or Kazakhstani-flagged. Dabbar noted that if this had been offered at the start of the negotiations, the investor would have accepted it easily.

¶2. (C) Ilham asirov of AzBTC (the semi-independent unit of state oil company SOCAR that directly administers Azerbaijan's share of the project) essentially agrees, but places blame for the long process on the investors. He says the reason the investors did not get "an agreement to dream about" was because they had nitpicked earlier agreements far too much. As an example, he cites language in the text of the agreement that commits Azerbaijan to using routes other than BTC for the transportation of Kazakhstani oil if BTC is unavailable for some reason. The investors wanted this language repeated in the preamble as well as in the text, said Nasirov, and several days were wasted negotiating this symbolic point. Ultimately, Nasirov feels the Government of Kazakhstan grew exasperated, took the lead role away from KazMunaiGaz (KMG), and put forward the "bare-bones" IGA that was ultimately signed.

¶3. (C) Nasirov feels that KMG and particularly managing director Kaigeldy Kabyldin, who had been leading the negotiations for the Azerbaijani side until recently, were damaged by the long process. Nasirov, echoing many in the Baku energy community, said that much of the IGA process had been "educating" Kazakhstani officials on the realities of large-scale international energy investments. Nasirov argued that had international investors been more flexible, perhaps KMG would have remained in charge of the process.

¶4. (C) Nasirov agreed that the HGA negotiations will be difficult. Azerbaijan is ready to begin "at any time" but it is up to the investors to initiate the process. Nasirov said that the negotiations could easily take a year. He does not see this as a problem since both Kazakhstan and Azerbaijan do not believe the investors' argument that Kazakhstan's Kashagan field will reach full production in 2009 (thus requiring quick negotiations so that there is time to put needed infrastructure in place). Nasirov feels that 2010 is

more likely as a start date and that the project will therefore have more time.

¶15. (C) COMMENT: The international energy community has been waiting for this IGA for a long time. Although international investors might have preferred a different agreement, they seem to be able to work with this one. In the years since the BTC negotiations, Azerbaijan has become more confident, more assertive of what it sees as its interests, and less inclined to defer to international investors. "We have matured," said Nasirov at one point. The USG also played much less of a role in these negotiations than was necessary during the BTC negotiations. This IGA clears the way for what will be long negotiations over the HGAs, and will ultimately clear the way for Kashagan oil to flow by tanker into BTC. END COMMENT.
HYLAND